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GLADWIN COMMUNITY SCHOOLS
GLADWIN, MICHIGAN

FINANCIAL STATEMENTS
JUNE 30, 2008

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RSM McGladrey Network

An Independently Owned Member

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Independent Auditors' Report

October 27, 2008

To the Board of Education
Gladwin Community Schools
Gladwin, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Gladwin Community Schools as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Gladwin Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Gladwin Community Schools as of June 30, 2008, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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WEINLANDER FITZHUGH

To the Board of Education
Gladwin Community Schools
October 27, 2008

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2008 on our consideration of the School District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide and opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information listed in the table of contents is not a required part of the basic financial statements but are supplemental information required by the U.S. generally accepted accounting principles and Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Gladwin Community Schools' basic financial statements. The combining and individual nonmajor fund financial statements, debt schedules and schedule of expenditures of federal awards are presented for purposes of additional analysis and as required by the U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments and Non-Profit Organizations and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, debt schedules and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material aspects, in relation to the basic financial statements taken as a whole.

Weinlander Fitzhugh

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Our discussion and analysis of the Gladwin Community School District's financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2008.

Financial Highlights

The School District's net assets increased by \$843,259 or 12%. Program revenues were \$3.6 million or 20% of total revenues and general revenues were \$14.6 million or 80%.

The General Fund reported a positive fund balance of \$1.9 million.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Gladwin Community Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds – the General Fund and the 2007 Capital Projects Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students. The following summarizes the presentation in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- District-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Other Supplemental Information

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Reporting the District as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the School District's finances is, "Is the School District better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School District's net assets as a way to measure the School District's financial position. The change in net assets provides the reader a tool to assist in determining whether the School District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the School District.

Reporting the District's Most Significant Funds

Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other sources of revenue. The School District's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Fiduciary Funds

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

District-wide Financial Analysis

The statement of net assets provides the perspective of the School District as a whole. Exhibit A provides a summary of the School District's net assets as of June 30, 2008 and 2007:

| | Exhibit A | |
|--|--------------------------------|---------------------|
| | <u>Governmental Activities</u> | |
| | <u>2008</u> | <u>2007</u> |
| Assets | | |
| Current and other assets | \$ 9,100,000 | \$ 6,300,000 |
| Capital assets - net of accumulated depreciation | <u>17,000,000</u> | <u>16,700,000</u> |
| Total assets | <u>26,100,000</u> | <u>23,000,000</u> |
| Liabilities | | |
| Current liabilities | 5,100,000 | 4,100,000 |
| Long-term liabilities | <u>12,700,000</u> | <u>11,500,000</u> |
| Total liabilities | <u>17,800,000</u> | <u>15,600,000</u> |
| Net Assets | | |
| Invested in property and equipment - net of related debt | 3,700,000 | 5,300,000 |
| Restricted | 2,800,000 | 1,200,000 |
| Unrestricted | <u>1,700,000</u> | <u>900,000</u> |
| Total net assets | <u>\$ 8,200,000</u> | <u>\$ 7,400,000</u> |

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2008

The analysis on the previous page, (see Exhibit A) focuses on net assets. The School District's net assets were \$8.2 million at June 30, 2008. Capital assets, net of related debt was \$3.7 million , which compares the original costs, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets of \$2.8 million (for debt service and capital projects) are reported separately to show legal constraints from debt requirements and legislation that limit the School District's ability to use those net assets for day-to-day operations.

The \$1.7 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

GLADWIN COMMUNITY SCHOOLS

Management's Discussion and Analysis

For the Year Ended June 30, 2008

The results of this year's operations for the School District as a whole are reported in the statement of activities. Exhibit B provides a summary of the changes in net assets for the years ended June 30, 2008 and 2007.

| | Governmental Activities | |
|---|----------------------------|-------------------|
| | 2008 | 2007 |
| Revenue | | |
| Program revenue: | | |
| Charges for services | \$ 500,000 | \$ 300,000 |
| Grants and categoricals | 3,100,000 | 2,700,000 |
| General revenue: | | |
| Property taxes | 4,800,000 | 4,700,000 |
| State foundation allowance | 9,600,000 | 10,200,000 |
| Other | 200,000 | 400,000 |
| Total revenue | <u>18,200,000</u> | <u>18,300,000</u> |
| Function/Program Expenses | | |
| Instruction | 9,400,000 | 10,000,000 |
| Support services | 5,900,000 | 5,800,000 |
| Food services | 700,000 | 600,000 |
| Athletics | 300,000 | 300,000 |
| Interest on long-term debt | 500,000 | 500,000 |
| Depreciation and amortization (unallocated) | 600,000 | 300,000 |
| Other | 0 | 100,000 |
| Total expenses | <u>17,400,000</u> | <u>17,600,000</u> |
| Change in Net Assets | <u>\$ 800,000</u> | <u>\$ 700,000</u> |

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$17.4 million. Certain activities were partially funded from those who benefited from the programs (\$500,000) or by the other governments and organizations that subsidized certain programs with grants and categorical (\$3.1 million). We paid for the remaining "public benefit" portion of our governmental activities with \$4.8 million in taxes, \$9.6 million in State Foundation Allowance and with our other revenues, such as interest and general entitlements.

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2008

The School District experienced an increase in net assets of \$800,000. Key reasons for the change in net assets were decreases in personnel costs due to the layoff of both certified and support personnel. An overall reduction in spending in all categories was a factor in the change. The decrease in net assets differs from the change in fund balance and a reconciliation appears in the financial statements.

The School District's Funds

The School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

The School District's governmental funds reported a combined fund balance of \$4.8 million, which is comparable to last year's total of \$2.3 million. The schedule below indicates the fund balances and the total change in fund balances as of June 30, 2008 and 2007.

| | <u>Fund Balance</u> <u>June 30, 2008</u> | <u>Fund Balance</u> <u>June 30, 2007</u> | <u>Increase</u> <u>(Decrease)</u> |
|------------------|---|---|--------------------------------------|
| General | \$ 1,946,889 | \$ 1,161,004 | \$ 785,885 |
| Capital Projects | 2,484,870 | 754,111 | 1,730,759 |
| Special Revenue | 50,087 | 37,202 | 12,885 |
| Debt Service | 332,195 | 378,310 | (46,115) |
| Total | <u>\$ 4,814,041</u> | <u>\$ 2,330,627</u> | <u>\$ 2,483,414</u> |

The School District completed this year with a combined fund balance increase of \$2,483,414 from the previous year. The primary reason for the increase was the use of bond proceeds for school improvements through the Capital Projects Fund and the payment of bond principal and interest through the Debt Service Funds.

- Our General Fund had an increase in fund balance due higher federal grant and Medicaid fees for services revenue. The General Fund experienced a decrease in maintenance and transportation. Buses were purchased from the 2007 Capital Project Fund rather than from the General Fund as planned.
- Our Capital Project Fund increased due to the issuance of bonds to be used for school improvements as stated above.

GLADWIN COMMUNITY SCHOOLS

Management's Discussion and Analysis

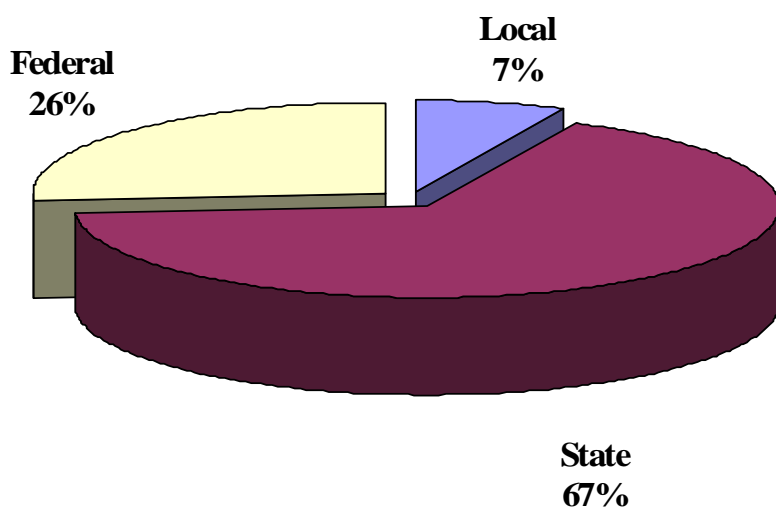
For the Year Ended June 30, 2008

- Our Special Revenue Funds had an increase in fund balance due to an increase in free and reduced lunches served. Also, the number of meals served increased due to more meals delivered to other organizations.
- Our Debt Service Fund is funded by local millage (tax collections). The decrease was due to the 1994 debt issue being finalized and closed.

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2008

As the graph below illustrates, the largest portion of the School District's General Fund revenue comes from state sources. Sixty three (67%) percent of the School District's General Fund revenue comes from state sources.

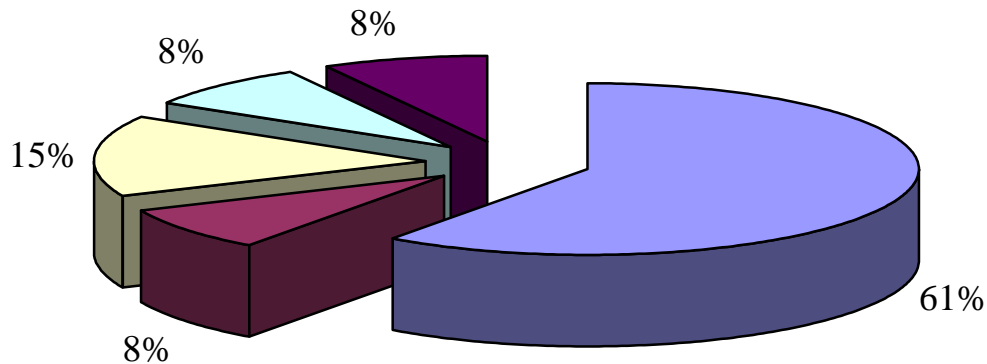
Sources of Revenue



GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2008

The graph below illustrates 61% of the General Fund' resources are spent on instruction. Another 8% is spent on pupil and instructional services necessary to support the needs of the students of the School District, while 8% is spent for operation and maintenance, including utilities and custodial services. The remaining 23% is spent on other support services.

Expenditures

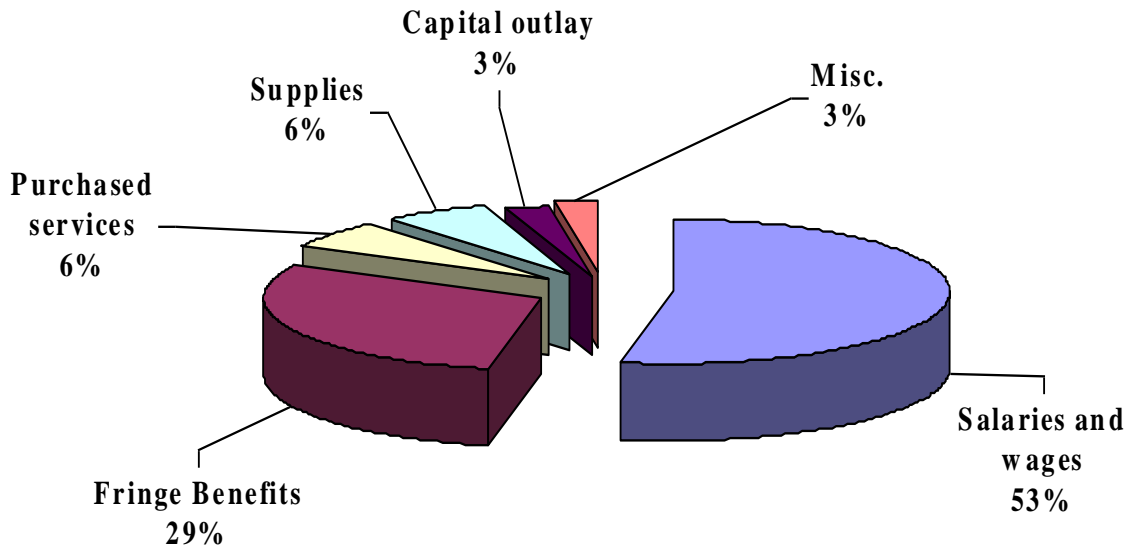


GLADWIN COMMUNITY SCHOOLS

Management's Discussion and Analysis For the Year Ended June 30, 2008

As the graph below illustrates, the largest portions of General Fund expenditures (excluding fund transfers) are for salaries and fringe benefits. The School District by nature is a labor intensive organization.

Expenditures by Natural Classification



| | 2008 | 2007 |
|-------------------------------|----------------------|----------------------|
| <i>Expenditures by Object</i> | | |
| Salaries and wages | \$ 8,231,691 | \$ 8,774,569 |
| Fringe benefits | 4,542,628 | 4,825,146 |
| Purchased services | 1,000,585 | 910,621 |
| Supplies | 932,645 | 924,479 |
| Capital outlay | 370,436 | 74,778 |
| Miscellaneous | 396,938 | 354,393 |
| Total | <u>\$ 15,474,923</u> | <u>\$ 15,863,986</u> |

Expenditures are down \$389,063 or 2% over the prior year mostly due to a decrease in personnel and fringe benefits. The decrease was offset by an increase in purchased services. This increase in purchased services is mainly due to the subcontracting of substitute teachers. All substitute teachers were considered purchased services during the 2006-2007 fiscal year.

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2008

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenues increased from the original budget by \$229,694. The increase was due to higher federal grants being received than anticipated, including Title 1 and Reading First. Special Education Medicaid fees for services were also greater than anticipated.
- Budgeted expenditures increased from the original budget by \$259,405. The increase was due to higher federal revenues being received as described above. The contracted substitute teacher budget was increased due to two full-time teachers taking long term leaves of absence.
- Actual revenues decreased from the final revenue by \$48,583 due to federal grants not being used to their full approval amount. The grants will be carried over to the 2008-2009 fiscal year where appropriate.
- Actual expenditures decreased from final expenditures by \$494,657 due to a decrease in spending in the maintenance and transportation categories, along with decreased spending in federal grants.

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Capital Assets

At June 30, 2008, the School District had \$17.0 million invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net increase (including additions and disposals) of approximately \$300,000 or 2%, from last year.

| | 2008 | 2007 |
|-------------------------------|---------------|---------------|
| Land | \$ 121,920 | \$ 121,920 |
| Construction in progress | 535,942 | 0 |
| Buildings and improvements | 24,206,391 | 24,275,846 |
| Buses and other vehicles | 1,764,246 | 1,518,635 |
| Furniture and equipment | 667,462 | 678,762 |
| | <hr/> | <hr/> |
| Total capital assets | 27,295,961 | 26,595,163 |
| | <hr/> | <hr/> |
| Less accumulated depreciation | 10,314,637 | 9,910,965 |
| | <hr/> | <hr/> |
| Net capital assets | \$ 16,981,324 | \$ 16,684,198 |
| | <hr/> | <hr/> |

GLADWIN COMMUNITY SCHOOLS

Management's Discussion and Analysis

For the Year Ended June 30, 2008

This year's additions of \$900,000 were \$360,000 for new busses, \$9,000 for a new copier and \$540,000 for construction in progress. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$13.1 million in bonds outstanding versus \$11.1 million in the previous year – a change of 18%. Those bonds consisted of the following:

| | 2008 | 2007 |
|--------------------------|----------------------|----------------------|
| General Obligation Bonds | \$ 12,950,000 | \$ 11,000,000 |
| Durant Bonds | 126,065 | 126,065 |
| | <u>\$ 13,076,065</u> | <u>\$ 11,126,065</u> |

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit.

Factors Expected to have an Effect on Future Operations

Our elected Board and administration consider many factors when setting the School District's 2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2008 fiscal year budget was adopted in June 2008, based on an estimate of students that will be enrolled in September 2008. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2008-2009 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2008 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2008

District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds will not fund the appropriation.

Requests For Information

This financial report is designed to provide a general overview of the School District's finances for all those with an interest in the School District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the Superintendent
Gladwin Community School District
401 N. Bowery Avenue, 2nd Floor
Gladwin, MI 48624

GLADWIN COMMUNITY SCHOOLS
Statement of Net Assets
June 30, 2008

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| <u>Assets</u> | |
| Cash and investments | \$ 6,361,473 |
| Receivables: | |
| Accounts receivable | 10,629 |
| Interfund balance | 11 |
| Due from other governmental units | 2,226,887 |
| Prepaid expenses | 29,454 |
| Inventories | 17,509 |
| Land contract receivable | 206,994 |
| Bond issuance costs less accumulated amortization of \$47,181 | 224,631 |
| Capital assets less accumulated depreciation \$10,314,637 | <u>16,981,324</u> |
| Total assets | <u>26,058,912</u> |
| <u>Liabilities</u> | |
| State aid note payable | 2,500,000 |
| Accrued payroll and other liabilities | 1,272,632 |
| Deferred revenue | 59,290 |
| Accrued interest payable | 113,126 |
| Long-term liabilities: | |
| Due within one year | 1,209,098 |
| Due in more than one year | <u>12,661,481</u> |
| Total liabilities | <u>17,815,627</u> |
| <u>Net Assets</u> | |
| Investment in capital assets - net of related debt | 3,691,465 |
| Restricted for capital projects | 2,484,870 |
| Restricted for debt service | 332,195 |
| Unrestricted | <u>1,734,755</u> |
| Total net assets | <u><u>\$ 8,243,285</u></u> |

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS
Statement of Activities
For the Year Ended June 30, 2008

| <u>Functions/Programs</u> | <u>Program Revenues</u> | | | <u>Governmental</u> |
|--|-------------------------|--------------------|--------------------------|-----------------------|
| | <u>Expenses</u> | <u>Charges for</u> | <u>Operating Grants/</u> | <u>Activities</u> |
| | | <u>Services</u> | <u>Contributions</u> | <u>Net (Expense)</u> |
| | | | | <u>Revenue and</u> |
| | | | | <u>Changes in Net</u> |
| | | | | <u>Assets</u> |
| Primary government - | | | | |
| Governmental activities | | | | |
| Instruction | \$ 9,377,569 | \$ 139,961 | \$ 2,470,359 | \$ (6,767,249) |
| Support services | 5,923,290 | 19,101 | 34,134 | (5,870,055) |
| Community services | 10,703 | 1,435 | 108,800 | 99,532 |
| Food services | 699,946 | 216,313 | 497,273 | 13,640 |
| Athletics | 263,632 | 103,479 | 0 | (160,153) |
| Interest on long-term debt | 530,576 | 0 | 0 | (530,576) |
| Depreciation (unallocated) | 564,321 | 0 | 0 | (564,321) |
| Amortization (unallocated) | 12,873 | 0 | 0 | (12,873) |
| Total governmental activities | <u>\$ 17,382,910</u> | <u>\$ 480,289</u> | <u>\$ 3,110,566</u> | <u>(13,792,055)</u> |
| General revenues: | | | | |
| Taxes: | | | | |
| Property taxes, levied for general purposes | | | | 3,889,528 |
| Property taxes, levied for debt services | | | | 899,589 |
| State aid not restricted to specific purposes | | | | 9,638,408 |
| Interest and investment earnings | | | | 165,987 |
| Loss on sale of assets | | | | (31,879) |
| Other | | | | 73,681 |
| Total general revenues | | | | <u>14,635,314</u> |
| Change in net assets | | | | <u>843,259</u> |
| Net assets - beginning of year, as previously stated | | | | 7,378,462 |
| Prior period adjustment | | | | <u>21,564</u> |
| Net assets - beginning of year, restated | | | | <u>7,400,026</u> |
| Net assets - end of year | | | | <u>\$ 8,243,285</u> |

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS

Governmental Funds

Balance Sheet

June 30, 2008

| | General | 2007 Capital Projects | Nonmajor Governmental Funds | Total |
|---------------------------------------|--------------------|-----------------------------|-----------------------------------|---------------------|
| <u>Assets</u> | | | | |
| Cash and investments | \$3,164,071 | \$2,053,405 | \$ 1,143,997 | \$ 6,361,473 |
| Receivables: | | | | |
| Accounts receivable | 9,462 | 0 | 1,167 | 10,629 |
| Due from other funds | 6,528 | 0 | 4,106 | 10,634 |
| Due from other governmental units | 2,226,887 | 0 | 0 | 2,226,887 |
| Prepaid expenditures | 23,697 | 0 | 5,757 | 29,454 |
| Inventories | 0 | 0 | 17,509 | 17,509 |
| | | | | |
| Total Assets | <u>\$5,430,645</u> | <u>\$2,053,405</u> | <u>\$ 1,172,536</u> | <u>\$ 8,656,586</u> |
| <u>Liabilities and Fund Balances</u> | | | | |
| <u>Liabilities</u> | | | | |
| State aid note payable | \$2,500,000 | \$ 0 | \$ 0 | \$ 2,500,000 |
| Accrued payroll and other liabilities | 920,409 | 352,223 | 0 | 1,272,632 |
| Due to other funds | 4,057 | 49 | 6,517 | 10,623 |
| Deferred revenue | 59,290 | 0 | 0 | 59,290 |
| | | | | |
| Total liabilities | <u>3,483,756</u> | <u>352,272</u> | <u>6,517</u> | <u>3,842,545</u> |
| <u>Fund Balances</u> | | | | |
| Reserved for prepaid expenditures | 23,697 | 0 | 0 | 23,697 |
| Reserved for inventories | 0 | 0 | 17,509 | 17,509 |
| Reserved for capital projects | 0 | 1,701,133 | 783,737 | 2,484,870 |
| Reserved for debt service | 0 | 0 | 332,195 | 332,195 |
| Unreserved / Undesignated | 1,923,192 | 0 | 32,578 | 1,955,770 |
| | | | | |
| Total fund balances | <u>1,946,889</u> | <u>1,701,133</u> | <u>1,166,019</u> | <u>4,814,041</u> |
| | | | | |
| Total Liabilities and Fund Balances | <u>\$5,430,645</u> | <u>\$2,053,405</u> | <u>\$ 1,172,536</u> | <u>\$ 8,656,586</u> |

See accompanying notes to financial statements

GLADWIN COMMUNITY SCHOOLS
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2008

| | |
|---|----------------------------|
| Total fund balances - governmental funds | \$ 4,814,041 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | |
| Cost of the capital assets | 27,295,961 |
| Accumulated depreciation | (10,314,637) |
| Bond issuance costs | 271,812 |
| Accumulated amortization | (47,181) |
| Land contract receivable not due in the current period and is not reported in the funds. | 206,994 |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds: | |
| Bonds payable | (13,076,065) |
| Land contract payable | (88,306) |
| Capital leases | (12,362) |
| Compensated absences | (693,846) |
| Accrued interest payable is not included as a liability in governmental activities | <u>(113,126)</u> |
| Total net assets - governmental activities | <u><u>\$ 8,243,285</u></u> |

See accompanying notes to financial statements

GLADWIN COMMUNITY SCHOOLS
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2008

| | General | 2007 Capital Projects | Nonmajor Governmental Funds | Totals |
|--|--------------|-----------------------------|-----------------------------------|--------------|
| <u>Revenues</u> | | | | |
| Local sources: | | | | |
| Property taxes | \$ 3,889,528 | \$ 0 | \$ 899,589 | \$ 4,789,117 |
| Other | 384,850 | 19,448 | 361,053 | 765,351 |
| State sources | 11,132,725 | 0 | 40,220 | 11,172,945 |
| Federal sources | 1,115,284 | 0 | 457,053 | 1,572,337 |
| Total revenues | 16,522,387 | 19,448 | 1,757,915 | 18,299,750 |
| <u>Expenditures</u> | | | | |
| Current: | | | | |
| Instruction | 9,372,383 | 0 | 0 | 9,372,383 |
| Support services | 5,917,070 | 0 | 0 | 5,917,070 |
| Community services | 10,703 | 0 | 0 | 10,703 |
| Capital outlay | 228,105 | 675,221 | 0 | 903,326 |
| Food service | 0 | 0 | 699,946 | 699,946 |
| Athletics | 0 | 0 | 263,632 | 263,632 |
| Debt service: | | | | |
| Principal | 42,848 | 0 | 450,000 | 492,848 |
| Interest and other | 6,183 | 0 | 507,151 | 513,334 |
| Total expenditures | 15,577,292 | 675,221 | 1,920,729 | 18,173,242 |
| Excess (deficiency) of revenues over expenditures | 945,095 | (655,773) | (162,814) | 126,508 |
| <u>Other Financing Sources (Uses)</u> | | | | |
| Proceeds from bonds | 0 | 2,400,000 | 0 | 2,400,000 |
| Bond issuance costs | 0 | (43,094) | 0 | (43,094) |
| Operating transfers in from other funds | 0 | 0 | 159,210 | 159,210 |
| Operating transfers out to other funds | (159,210) | 0 | 0 | (159,210) |
| Total other financing sources (uses) | (159,210) | 2,356,906 | 159,210 | 2,356,906 |
| Net change in fund balance | 785,885 | 1,701,133 | (3,604) | 2,483,414 |
| Fund balance - beginning of year | 1,161,004 | 0 | 1,169,623 | 2,330,627 |
| Fund balance - end of year | \$ 1,946,889 | \$ 1,701,133 | \$ 1,166,019 | \$ 4,814,041 |

See accompanying notes to financial statements

GLADWIN COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008

| | |
|---|--------------------------|
| Net change in fund balances - total governmental funds | \$ 2,483,414 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| In the statement of activities, only the loss on the sale of the fixed asset is reported, whereas in the governmental funds, only the payments received on the land contract increase financial resources. | (41,879) |
| Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation | |
| Amortization expense | (12,873) |
| Depreciation expense | (564,321) |
| Bond issuance costs | 43,094 |
| Capital outlay | 903,326 |
| Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid | (17,243) |
| Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from bonds issued. | (2,400,000) |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) | 450,000 |
| Repayment of loans are an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) | 42,848 |
| Receipt of land contract payments is revenue in the governmental funds, but not in the statement of activities (where it reduces land contract receivable) | (31,702) |
| Decreases in compensated absences are reported as a reduction to expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6. | (11,405) |
| Change in net assets of governmental activities | <u><u>\$ 843,259</u></u> |

See accompanying notes to financial statements

GLADWIN COMMUNITY SCHOOLS
Fiduciary Fund
Statement of Fiduciary Net Assets
June 30, 2008

| | <u>Agency Funds</u> |
|-----------------------|-------------------------|
| <u>Assets</u> | |
| Cash and investments | <u>\$ 172,838</u> |
| <u>Liabilities</u> | |
| Due to other funds | \$ 11 |
| Due to student groups | <u>172,827</u> |
| | <u>\$ 172,838</u> |

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Gladwin Community Schools (the “School District”) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District’s reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District’s government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statement

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Statements – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

2007 Capital Projects Fund – The Capital Projects Fund is used to record the activity related to major construction projects of the School District. Included are transaction related to the additions and improvements to the School District’s grounds and buildings.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid items in both district-wide and fund financial statements. Bond issuance costs are reflected only in the district wide financial statements and will be amortized over a twelve year period.

Capital Assets – Capital assets, which include land, buildings, equipment and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|----------------------------|-------------|
| Buildings and improvements | 10-50 years |
| Buses and other vehicles | 8 years |
| Furniture and equipment | 5-20 years |

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences – The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Property Taxes – For Gladwin Community Schools taxpayers, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1. The final collection date is February 28, after which uncollected taxes are added to the County delinquent tax rolls.

State Aid – For the fiscal year ended June 30, 2008, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on the average pupil membership counts taken in February and September of 2007.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2007 – August 2008. The local revenue is recognized as outlined in Note 1 Basis of Accounting. Amounts receivable from the State of Michigan at June 30, 2008 (included in due/from other governmental units) relating to state aid is \$2,003,622.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

NOTE 2 – BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of school districts prior to the expenditure of monies in a fiscal year.

Gladwin Community Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end and therefore cancels all encumbrances. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

GLADWIN COMMUNITY SCHOOLS

Notes to Financial Statements For the Year Ended June 30, 2008

NOTE 2 – BUDGETS (CONTINUED)

During the year ended June 30, 2008, the School District received revenues in certain budgetary funds which were under the amounts appropriated as follows:

| <u>Fund/Function</u> | <u>Total Budget</u> | <u>Amount of Revenue</u> | <u>Budget Variance</u> |
|---|-------------------------|------------------------------|----------------------------|
| General Fund: | | | |
| Federal sources | \$ 1,366,031 | \$ 1,115,284 | \$ (250,747) |
| Operating transfers in from other funds | 114,815 | 0 | (114,815) |

NOTE 3 – DEPOSITS AND INVESTMENTS

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

| | <u>Governmental Activities</u> | <u>Fiduciary Fund</u> | <u>Total Primary Government</u> |
|----------------------|------------------------------------|-----------------------|-------------------------------------|
| Cash and investments | <u>\$ 6,361,473</u> | <u>\$ 172,838</u> | <u>\$ 6,534,311</u> |

The breakdown between deposits and investments for the School District is as follows:

| | |
|---|---------------------|
| Deposits (checking and savings accounts, certificates of deposit) | \$ 3,009,470 |
| Investments in interlocal agreement investment pools (i.e. MILAF) | |
| with a weighted average maturity not to exceed 60 days | 3,524,541 |
| Petty cash and cash on hand | <u>300</u> |
| Total | <u>\$ 6,534,311</u> |

GLADWIN COMMUNITY SCHOOLS

Notes to Financial Statements For the Year Ended June 30, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$3,428,697 of the School District's bank balance of \$3,528,697 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The School District's investment policy does not identify interest rate risk, foreign currency risk and concentration credit risk.

NOTE 4 - CAPITAL ASSETS

A summary of changes in Governmental capital assets follows:

| | Balance July 1, 2007 | Additions | Disposals and Adjustments | Balance June 30, 2008 |
|--------------------------------------|----------------------------|------------|---------------------------------|-----------------------------|
| Assets not being depreciated | | | | |
| Land | \$ 121,920 | \$ 0 | \$ 0 | \$ 121,920 |
| Construction in progress | 0 | 535,942 | 0 | 535,942 |
| Subtotal | 121,920 | 535,942 | 0 | 657,862 |
| Capital assets being depreciated: | | | | |
| Building and improvements | 24,275,846 | 0 | (69,455) | 24,206,391 |
| Buses and other vehicles | 1,518,635 | 358,744 | (113,133) | 1,764,246 |
| Furniture and equipment | 678,762 | 8,640 | (19,940) | 667,462 |
| Subtotal | 26,473,243 | 367,384 | (202,528) | 26,638,099 |
| Accumulated depreciation: | | | | |
| Building and improvements | 8,020,146 | 499,281 | (27,576) | 8,491,851 |
| Buses and other vehicles | 1,392,996 | 39,815 | (113,133) | 1,319,678 |
| Furniture and equipment | 497,823 | 25,225 | (19,940) | 503,108 |
| Subtotal | 9,910,965 | 564,321 | (160,649) | 10,314,637 |
| Net capital assets being depreciated | 16,562,278 | (196,937) | (41,879) | 16,323,462 |
| Net capital assets | \$ 16,684,198 | \$ 339,005 | \$ (41,879) | \$ 16,981,324 |

Depreciation for fiscal year ended June 30, 2008 amounted to \$564,321. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A summary of inter-fund receivable and payable balances at June 30, 2008 and transfers made during the year ended June 30, 2008 is as follows:

| <u>Fund</u> | <u>Receivables</u> | <u>Payables</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|-----------------------|--------------------|------------------|---------------------|----------------------|
| General | \$ 6,528 | \$ 4,057 | \$ 0 | \$ 159,210 |
| Special Revenue: | | | | |
| Athletics | 0 | 0 | 159,210 | 0 |
| Food Service | 4,057 | 6,517 | 0 | 0 |
| Activity | 0 | 11 | 0 | 0 |
| 2007 Capital Projects | 0 | 49 | 0 | 0 |
| 2007 Debt | 49 | 0 | 0 | 0 |
| | <u>\$ 10,634</u> | <u>\$ 10,634</u> | <u>\$ 159,210</u> | <u>\$ 159,210</u> |

These interfund receivable and payable balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems and (3) payments between funds are made.

Transfers are used to supplement athletic operational costs.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 6 – LAND CONTRACT RECEIVABLE

Gladwin Community Schools entered into a land contract to sell the adult education building on June 15, 2006 in the amount of \$250,000. The land contract requires quarterly installments of \$6,348 including interest at 6.136%.

NOTE 7 – LONG-TERM DEBT

The following is a summary of governmental long-term obligations for the School District for the year ended June 30, 2008:

| | Balance July 1, 2007 | Additions | Retirements and Payments | Balance June 30, 2008 | Amount Due Within One Year |
|--|----------------------------|---------------------|--------------------------------|-----------------------------|----------------------------------|
| Bonds | \$ 11,126,065 | \$ 2,400,000 | \$ 450,000 | \$ 13,076,065 | \$ 1,171,882 |
| Land contract | 111,723 | 0 | 23,417 | 88,306 | 24,854 |
| Capital leases | 31,793 | 0 | 19,431 | 12,362 | 12,362 |
| Retirement stipends and compensated absences | 682,441 | 11,405 | 0 | 693,846 | 0 |
| Total | <u>\$ 11,952,022</u> | <u>\$ 2,411,405</u> | <u>\$ 492,848</u> | <u>\$ 13,870,579</u> | <u>\$ 1,209,098</u> |

Bonds payable at June 30, 2008 is comprised of the following issues:

| | |
|--|----------------------|
| \$11,600,000 General Obligation Bonds due in annual installments of \$125,000 to \$825,000 through May 1, 2024; interest at 3.00% to 4.50% | \$ 10,550,000 |
| \$2,400,000 School Building and Site Bonds due in annual installments of \$25,000 to \$685,000 through May 1, 2024; interest at 4.0% | 2,400,000 |
| \$213,601 Durant Non-Plaintiff serial bonds due in annual installments of \$10,824 to \$49,901 through May 15, 2013; interest at 4.76% | <u>126,065</u> |
| Total Bonded Debt | <u>\$ 13,076,065</u> |

The Durant Non-Plaintiff bond, including interest, was issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 7 – LONG-TERM DEBT (CONTINUED)

The Durant Non-Plaintiff bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitations. This Bond is payable both as to principal and interest solely from the State Aid payments described in the preceding paragraph.

Gladwin Community Schools entered into a land contract obligation on May 25, 2002 for a building to be used for the alternative education program in the amount of \$210,000. The land contract calls for quarterly installments of \$7,400 including interest at 6%. The principal balance at June 30, 2008 was \$88,306.

The School District has entered into long-term lease agreements for telephone systems for the junior and senior high schools, the purchase of a bus, the purchase of software and the purchase of copiers. Depreciation of this phone system, bus, software and copiers are included in depreciation expense. The following is a schedule by years of future minimum lease payments under capital leases as of June 30, 2008:

| | |
|------------------------------|------------------|
| 2009 | \$ 13,225 |
| Amount representing interest | <u>(863)</u> |
| | <u>\$ 12,362</u> |

Under the terms of the present contracts between the Board of Education of Gladwin Community Schools and the various employee groups, including teachers, administration, custodians, bus drivers and extra support personnel, the School District is contingently liable for compensated absences (sick pay) and retirement stipends pay. The amount of compensated absences and retirement stipends, calculated based on number of years of service, amounted to \$295,996 and \$397,850 respectively at June 30, 2008.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 7 – LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize bonds, land contracts and capital leases outstanding as of June 30, 2008 including interest payments are as follows:

| <u>Year Ended June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------|----------------------|---------------------|----------------------|
| 2009 | \$ 1,209,098 | \$ 543,596 | \$ 1,752,694 |
| 2010 | 624,550 | 524,008 | 1,148,558 |
| 2011 | 616,038 | 479,530 | 1,095,568 |
| 2012 | 657,737 | 458,408 | 1,116,145 |
| 2013 | 674,310 | 434,944 | 1,109,254 |
| 2014-2018 | 3,740,000 | 1,750,425 | 5,490,425 |
| 2019-2023 | 4,645,000 | 852,375 | 5,497,375 |
| 2024 | 1,010,000 | 44,525 | 1,054,525 |
| | <u>\$ 13,176,733</u> | <u>\$ 5,087,811</u> | <u>\$ 18,264,544</u> |

NOTE 8 – SHORT-TERM DEBT ACTIVITY

The School District issues state aid anticipation notes in advance of State of Michigan state aid payments, depositing the proceeds in its General Fund. These notes are necessary because the School District's cash flow obligation to operating expenses precede the collection of state aid.

| | <u>Beginning Balance</u> | <u>Issued</u> | <u>Redeemed</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|---------------------|---------------------------|
| State Aid Anticipation Note due August 20, 2008, accruing interest at 3.68% | <u>\$ 2,700,000</u> | <u>\$ 2,500,000</u> | <u>\$ 2,700,000</u> | <u>\$ 2,500,000</u> |

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 9 – RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical claims and participates in the SET-SEG risk pool for claims relating to workers' compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

The SET-SEG shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 10 – DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description – The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy – Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 17.74% for the period from July 1, 2007 through September 30, 2007 and 16.74% from October 1, 2007 through June 30, 2008 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS plan for the years ended June 30, 2008, 2007 and 2006 were \$1,451,164, \$1,571,230 and \$1,561,174 respectively.

Postemployment Benefits – Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 11 – GRANTS

The School District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the School District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. Based on prior experience, the School District administration believes such disallowance, if any, would be immaterial.

NOTE 12 – ECONOMIC DEPENDENCY

The School District received approximately 67% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

NOTE 13 – PRIOR PERIOD ADJUSTMENT

The net assets of Gladwin Community Schools at July 1, 2007, have been increased by \$21,564. The adjustment was made to capitalize the purchase of a bus in a prior year.

GLADWIN COMMUNITY SCHOOLS
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2008

| | Original Budget | Final Amended Budget | Actual |
|--|----------------------------|----------------------------|----------------------------|
| <u>Revenues</u> | | | |
| Local sources | \$ 3,997,447 | \$ 4,121,348 | \$ 4,274,378 |
| State sources | 11,204,608 | 11,083,591 | 11,132,725 |
| Federal sources | 1,139,221 | 1,366,031 | 1,115,284 |
| Total revenues | <u>16,341,276</u> | <u>16,570,970</u> | <u>16,522,387</u> |
| <u>Expenditures</u> | | | |
| Instruction: | | | |
| Basic programs | 6,610,314 | 7,059,294 | 7,046,673 |
| Added needs | 2,714,270 | 2,421,122 | 2,325,710 |
| Support services: | | | |
| Pupil | 784,945 | 825,851 | 793,255 |
| Instructional staff | 604,572 | 676,899 | 492,933 |
| General administration | 330,699 | 316,509 | 285,491 |
| School administration | 967,990 | 914,705 | 900,396 |
| Business services | 1,159,413 | 1,157,912 | 1,145,157 |
| Operations and maintenance | 1,361,732 | 1,393,794 | 1,297,119 |
| Transportation | 1,225,330 | 1,297,122 | 1,250,256 |
| Debt service | 7,537 | 7,537 | 6,183 |
| Facilities acquisition | 22,063 | 23,420 | 23,416 |
| Community services | 18,889 | 22,179 | 10,703 |
| Total expenditures | <u>15,807,754</u> | <u>16,116,344</u> | <u>15,577,292</u> |
| Excess (deficiency) of revenue over expenditures | <u>533,522</u> | <u>454,626</u> | <u>945,095</u> |
| <u>Other Financing Sources (Uses)</u> | | | |
| Operating transfers in from other funds | 0 | 114,815 | 0 |
| Operating transfers out to other funds | (164,000) | (272,300) | (159,210) |
| Total other financing sources (uses) | <u>(164,000)</u> | <u>(157,485)</u> | <u>(159,210)</u> |
| Net changes in fund balance | 369,522 | 297,141 | 785,885 |
| Fund balance - beginning of year | <u>1,161,004</u> | <u>1,161,004</u> | <u>1,161,004</u> |
| Fund balance - end of year | <u><u>\$ 1,530,526</u></u> | <u><u>\$ 1,458,145</u></u> | <u><u>\$ 1,946,889</u></u> |

GLADWIN COMMUNITY SCHOOLS
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

| | Special Revenue Funds | | Debt Service Funds | | | 2004 Capital Projects Fund | Total |
|--------------------------------------|--------------------------|------------------|-----------------------|------------------|-----------------|-------------------------------------|---------------------|
| | Athletic Activities | Food Services | 2004 Issue | 2007 Issue | Durant Issue | | |
| <u>Assets</u> | | | | | | | |
| Cash and investments | \$ 610 | \$ 27,504 | \$ 277,498 | \$ 54,648 | \$ 0 | \$ 783,737 | \$ 1,143,997 |
| Due from other funds | 0 | 4,057 | 0 | 49 | 0 | 0 | 4,106 |
| Inventories | 0 | 17,509 | 0 | 0 | 0 | 0 | 17,509 |
| Prepaid expenditures | 1,205 | 4,552 | 0 | 0 | 0 | 0 | 5,757 |
| Accounts receivable | 0 | 1,167 | 0 | 0 | 0 | 0 | 1,167 |
| Total Assets | <u>\$ 1,815</u> | <u>\$ 54,789</u> | <u>\$ 277,498</u> | <u>\$ 54,697</u> | <u>\$ 0</u> | <u>\$ 783,737</u> | <u>\$ 1,172,536</u> |
| <u>Liabilities and Fund Balances</u> | | | | | | | |
| <u>Liabilities</u> | | | | | | | |
| Due to other funds | \$ 0 | \$ 6,517 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 6,517 |
| <u>Fund Balances</u> | | | | | | | |
| Reserved for inventories | 0 | 17,509 | 0 | 0 | 0 | 0 | 17,509 |
| Reserved for debt service | 0 | 0 | 277,498 | 54,697 | 0 | 0 | 332,195 |
| Reserved for capital projects | 0 | 0 | 0 | 0 | 0 | 783,737 | 783,737 |
| Unreserved/Undesignated | 1,815 | 30,763 | 0 | 0 | 0 | 0 | 32,578 |
| Total fund balances | <u>1,815</u> | <u>48,272</u> | <u>277,498</u> | <u>54,697</u> | <u>0</u> | <u>783,737</u> | <u>1,166,019</u> |
| Total Liabilities and Fund Balances | <u>\$ 1,815</u> | <u>\$ 54,789</u> | <u>\$ 277,498</u> | <u>\$ 54,697</u> | <u>\$ 0</u> | <u>\$ 783,737</u> | <u>\$ 1,172,536</u> |

GLADWIN COMMUNITY SCHOOLS
Other Supplemental Information
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2008

| | Special Revenue Funds | | Debt Service Funds | | | 2004 Capital Projects Fund | Total |
|--|------------------------|------------------|-----------------------|---------------|-----------------|-------------------------------------|--------------|
| | Athletic Activities | Food Services | 2004 Issue | 2007 Issue | Durant Issue | | |
| <u>Revenues</u> | | | | | | | |
| Local | \$ 103,479 | \$216,501 | \$ 800,322 | \$110,714 | \$ 0 | \$ 29,626 | \$ 1,260,642 |
| State | 0 | 40,220 | 0 | 0 | 0 | 0 | 40,220 |
| Federal | 0 | 457,053 | 0 | 0 | 0 | 0 | 457,053 |
| Total revenues | 103,479 | 713,774 | 800,322 | 110,714 | 0 | 29,626 | 1,757,915 |
| <u>Expenditures</u> | | | | | | | |
| Current: | | | | | | | |
| Food services | 0 | 699,946 | 0 | 0 | 0 | 0 | 699,946 |
| Athletics | 263,632 | 0 | 0 | 0 | 0 | 0 | 263,632 |
| Debt service: | | | | | | | |
| Principal | 0 | 0 | 450,000 | 0 | 0 | 0 | 450,000 |
| Interest and other | 0 | 0 | 451,134 | 56,017 | 0 | 0 | 507,151 |
| Total expenditures | 263,632 | 699,946 | 901,134 | 56,017 | 0 | 0 | 1,920,729 |
| Excess (deficiency) of revenues over expenditures | (160,153) | 13,828 | (100,812) | 54,697 | 0 | 29,626 | (162,814) |
| <u>Other Financing Sources</u> | | | | | | | |
| Operating transfers in from other funds | 159,210 | 0 | 0 | 0 | 0 | 0 | 159,210 |
| Net change in fund balance | (943) | 13,828 | (100,812) | 54,697 | 0 | 29,626 | (3,604) |
| Fund balance - beginning of year | 2,758 | 34,444 | 378,310 | 0 | 0 | 754,111 | 1,169,623 |
| Fund balance - end of year | \$ 1,815 | \$ 48,272 | \$ 277,498 | \$ 54,697 | \$ 0 | \$ 783,737 | \$ 1,166,019 |

GLADWIN COMMUNITY SCHOOLS

Other Supplemental Information

Schedule of Bonded Indebtedness

For the Year Ended June 30, 2008

PURPOSE The 2004 general obligation bonds issued, which the District will use to construct an addition to the elementary school, do minor repair/remodeling in the intermediate school and major renovating of the junior high school.

DATE OF ISSUE November 8, 2004

| | |
|-----------------|--------------|
| AMOUNT OF ISSUE | \$11,600,000 |
|-----------------|--------------|

AMOUNT OF RETIRED

| | | |
|---------------------|------------|-----------|
| During prior years | \$ 600,000 | |
| During current year | 450,000 | 1,050,000 |

| | |
|--|--------------|
| <u>BALANCE OUTSTANDING - June 30, 2008</u> | \$10,550,000 |
|--|--------------|

| Fiscal Year | Interest Rate | Requirements | | |
|-------------|---------------|---------------------|---------------------|----------------------|
| | | Principal | Interest | Total |
| 2009 | 3.00% | \$ 475,000 | \$ 438,875 | \$ 913,875 |
| 2010 | 3.25% | 500,000 | 424,625 | 924,625 |
| 2011 | 3.25% | 525,000 | 408,375 | 933,375 |
| 2012 | 3.50% | 550,000 | 391,313 | 941,313 |
| 2013 | 3.75% | 575,000 | 372,063 | 947,063 |
| 2014-2018 | 4.00-4.50% | 3,250,000 | 1,492,625 | 4,742,625 |
| 2019-2023 | 4.50% | 3,850,000 | 714,375 | 4,564,375 |
| 2024 | 4.50% | 825,000 | 37,125 | 862,125 |
| | | <u>\$10,550,000</u> | <u>\$ 4,279,376</u> | <u>\$ 14,829,376</u> |

GLADWIN COMMUNITY SCHOOLS
Other Supplemental Information
Schedule of Bonded Indebtedness
For the Year Ended June 30, 2008

PURPOSE The 2007 general obligation bonds issued, which the District will use to remodel the high school, including roof replacements and cafeteria improvements; acquiring and installing lockers; acquiring school buses and developing and improving sites.

DATE OF ISSU] October 1, 2007

AMOUNT OF ISSUE \$2,400,000

AMOUNT OF RETIRED

| | | | |
|---------------------|----|---|---|
| During prior years | \$ | 0 | |
| During current year | | 0 | 0 |

BALANCE OUTSTANDING - June 30, 2008 \$2,400,000

| <u>Fiscal Year</u> | <u>Interest Rate</u> | <u>Requirements</u> | | |
|--------------------|----------------------|---------------------|-----------------|--------------|
| | | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2009 | 4.00% | \$ 685,000 | \$ 96,000 | \$ 781,000 |
| 2010 | 4.00% | 25,000 | 68,600 | 93,600 |
| 2011 | 4.00% | 50,000 | 67,600 | 117,600 |
| 2012 | 4.00% | 85,000 | 65,600 | 150,600 |
| 2013 | 4.00% | 85,000 | 62,200 | 147,200 |
| 2014-2018 | 4.00% | 490,000 | 257,800 | 747,800 |
| 2019-2023 | 4.00% | 795,000 | 138,000 | 933,000 |
| 2024 | 4.00% | 185,000 | 7,400 | 192,400 |
| | | \$ 2,400,000 | \$ 763,200 | \$ 3,163,200 |

| | |
|----------------|--|
| <u>PURPOSE</u> | Remodeling school buildings and improving sites. |
|----------------|--|

| | |
|------------------------|-----------|
| <u>AMOUNT OF ISSUE</u> | \$213,501 |
|------------------------|-----------|

| | | | |
|--------------------------|---------------------|-----------|--------|
| <u>AMOUNT OF RETIRED</u> | | | |
| | During prior years | \$ 87,436 | |
| | During current year | 0 | 87,436 |

| | |
|--|-------------------|
| <u>BALANCE OUTSTANDING - June 30, 2008</u> | <u>\$ 126,065</u> |
|--|-------------------|

-29-



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

October 27, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYCK, CPA

To the Board of Education
Gladwin Community Schools
Gladwin, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gladwin Community Schools as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 27, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gladwin Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gladwin Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gladwin Community Schools' internal control over financial reporting.

Our consideration on internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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RSM! McGladrey Network

An Independently Owned Member



WEINLANDER FITZHUGH

To the Board of Education
Gladwin Community Schools
October 27, 2008

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control over financial reporting. We consider the deficiencies described in 2008-1 in the accompanying schedule of findings and questioned cost to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the Gladwin Community Schools' internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gladwin Community Schools' basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Gladwin Community Schools' response to the findings identified in our audit are described in the accompanying schedule of findings and questioned cost. We did not audit Gladwin Community Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Weinlander Fitzhugh



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
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October 27, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Gladwin Community Schools
Gladwin, Michigan

Compliance

We have audited the compliance of Gladwin Community Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Gladwin Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Gladwin Community Schools' management. Our responsibility is to express an opinion on Gladwin Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Gladwin Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Gladwin Community Schools' compliance with those requirements.

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In our opinion, Gladwin Community Schools' complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2008-2.

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To the Board of Education
Gladwin Community Schools
October 27, 2007

Internal Control Over Compliance

The management of Gladwin Community Schools' is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Gladwin Community Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Gladwin Community Schools' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was not for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Education, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Weinlander Fitzhugh

GLADWIN COMMUNITY SCHOOLS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

SECTION I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified opinion

Internal control over financial reporting:

- Material weakness(es) identified? ☐ YES ☒ NO
- Significant deficiencies identified not considered to be material weaknesses? ☒ YES ☐ NO

Noncompliance material to financial statements noted? ☐ YES ☒ NO

Federal Awards

Internal Control over major programs:

- Material weakness(es) identified? ☐ YES ☒ NO
- Significant deficiencies identified not considered to be material weaknesses? ☐ YES ☒ NO

Type of auditor's report issued on compliance of major programs: Unqualified opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133? ☒ YES ☐ NO

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 84.010 | ECIA Title I |
| 84.357 | Reading First |

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ YES ☐ NO

GLADWIN COMMUNITY SCHOOLS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

SECTION II - Financial Statement Findings

2008-1

Criteria or Specific Requirement

Establishment and maintenance of internal controls over the financial reporting process.

Condition

Due to the complexity of the required note disclosures and the District-wide statements in accordance with GASB 34, the School District does not maintain personnel who can report in accordance with U.S. generally accepted accounting principles without auditor involvement.

Criteria

Internal controls should be in place to provide reasonable assurance to the School District that management possesses the skills necessary to monitor and report annual financial activity without auditor involvement.

Effect

The effect of this condition places a reliance on the independent auditor to be part of the School District's internal controls over financial reporting.

Recommendation

The School District should review and implement the necessary education and procedural activities to monitor and report annual financial activity

Views of the Responsible Officials and Planned Corrective Action

As a result of the state of educational funding, the School District has not allocated resources to fund this process. We intend to re-evaluate once funding becomes available for the additional education and monitoring.

GLADWIN COMMUNITY SCHOOLS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

SECTION III - Federal Award Findings and Questioned Costs

2008-2

Program

Reading First – CFDA Number 84.357

Criteria

Semi-annual certification documentation of employees that work solely on a single federal award as required by Circular A-87.

Condition

Lack of semi-annual certification documentation.

Questioned costs

Payroll and payroll related expenses for Reading First.

Context

Applicable to employees that work solely on a single federal award.

Effect

Lack of required documentation

Cause

Lack of information on current Reading First requirements

Recommendation

Begin semi-annual certification documentation on employees that work solely on a single federal award as required by Circular A-87

Views of responsible officials and planned corrective actions

Management will begin the semi-annual certification for employees that work solely on a single federal award at the beginning of the 2008-09 school year.

GLADWIN COMMUNITY SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

| Federal Grantor Pass Through Grantor <u>Program Title Grant Number</u> | Federal CFDA <u>Number</u> | Approved Grant Award <u>Amount</u> | (Memo Only) Prior Year <u>Expenditures</u> | Accrued (Deferred) Revenue <u>July 1, 2007</u> | Adjustments and <u>Transfers</u> |
|--|----------------------------------|--|--|--|--|
| <u>U.S. Department of Education</u> | | | | | |
| Passed through Michigan | | | | | |
| Department of Education: | | | | | |
| Adult Education - State Administration | | | | | |
| Project 081130-810787 | 84.002 | \$ 49,000 | \$ 0 | \$ 0 | \$ 0 |
| Project 081190-810787 | 84.002 | 28,000 | 0 | 0 | 0 |
| | | | <u>0</u> | <u>0</u> | <u>0</u> |
| ECIA Title I | | | | | |
| Project 071530-0607 | 84.010 | 506,290 | 381,454 | 0 | 0 |
| Project 081250-0708 | 84.010 | 564,492 | 0 | 0 | 0 |
| | | | <u>381,454</u> | <u>0</u> | <u>0</u> |
| ECIA Title V | | | | | |
| Project 070250-0608 | 84.298 | 3,690 | 3,690 | 0 | 0 |
| Project 080250-0607 | 84.298 | 4,193 | 0 | 0 | 0 |
| | | | <u>3,690</u> | <u>0</u> | <u>0</u> |
| Technology Literacy Challenge | | | | | |
| Project 074290-0607 | 84.318 | 5,197 | 5,197 | 0 | 0 |
| Project 084290-0708 | 84.318 | 6,361 | 0 | 0 | 0 |
| | | | <u>5,197</u> | <u>0</u> | <u>0</u> |
| Reading First State Grants | | | | | |
| Project 062930-0607 | 84.357A | 380,553 | 302,921 | 0 | 0 |
| Project 082930-0708 | 84.357A | 512,337 | 0 | 0 | 0 |
| | | | <u>302,921</u> | <u>0</u> | <u>0</u> |
| Improving Teacher Quality | | | | | |
| Project 070520-0608 | 84.367 | 165,491 | 160,770 | 0 | 0 |
| Project 080520-0707 | 84.367 | 169,008 | 0 | 0 | 0 |
| | | | <u>160,770</u> | <u>0</u> | <u>0</u> |
| Passed through Gratiot Isabella ISD: | | | | | |
| Drug Free Schools | 84.186 | | 6,839 | 0 | 0 |
| Total U.S. Department of Education | | | <u>860,871</u> | <u>0</u> | <u>0</u> |
| <u>U.S. Department of Agriculture</u> | | | | | |
| Passed through Michigan Department of Education: | | | | | |
| Nutrition Cluster | | | | | |
| Breakfast | 10.553 | 82,314 | 0 | 0 | 0 |
| Sec. 4 and 11 - Free and Reduced | 10.555 | 324,141 | 0 | 0 | 0 |
| Special milk program | 10.556 | 374 | 0 | 0 | 0 |
| Food Distribution | | | | | |
| Entitlement Commodities | 10.550 | 50,224 | 0 | 0 | 0 |
| Total U.S. Department of Agriculture | | | <u>0</u> | <u>0</u> | <u>0</u> |
| Grant Total | | | <u>\$ 860,871</u> | <u>\$ 0</u> | <u>\$ 0</u> |

See accompanying notes to financial statements

| Current Year Receipts (Cash Basis) | Current Year Expenditures | Accrued (Deferred) Revenue June 30, 2008 |
|--|------------------------------|--|
| \$ 41,332 | \$ 49,000 | \$ 7,668 |
| 24,888 | 28,000 | 3,112 |
| <u>66,220</u> | <u>77,000</u> | <u>10,780</u> |
| 97,526 | 97,526 | 0 |
| 316,886 | 340,605 | 23,719 |
| <u>414,412</u> | <u>438,131</u> | <u>23,719</u> |
| (384) | (384) | 0 |
| 4,193 | 4,193 | 0 |
| <u>3,809</u> | <u>3,809</u> | <u>0</u> |
| (1,331) | (1,331) | 0 |
| 6,361 | 6,361 | 0 |
| <u>5,030</u> | <u>5,030</u> | <u>0</u> |
| 53,259 | 53,259 | 0 |
| 390,664 | 497,082 | 106,418 |
| <u>443,923</u> | <u>550,341</u> | <u>106,418</u> |
| 2,042 | 2,042 | 0 |
| 24,830 | 32,092 | 7,262 |
| <u>26,872</u> | <u>34,134</u> | <u>7,262</u> |
| 6,839 | 6,839 | 0 |
| <u>967,105</u> | <u>1,115,284</u> | <u>148,179</u> |
| 82,314 | 82,314 | 0 |
| 324,141 | 324,141 | 0 |
| 374 | 374 | 0 |
| 50,224 | 50,224 | 0 |
| 457,053 | 457,053 | 0 |
| <u>\$ 1,424,158</u> | <u>\$ 1,572,337</u> | <u>\$ 148,179</u> |

GLADWIN COMMUNITY SCHOOLS
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

NOTE 1 – BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Gladwin Community Schools and is presented in the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-profit Organizations.

NOTE 2 – OTHER DISCLOSURES

Management has utilized the Grants Section Auditors Report and the Cash Management System Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
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October 27, 2008

To the Board of Education
Gladwin Community Schools
Gladwin, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Gladwin Community Schools for the year ended June 30, 2008, and have issued our report thereon dated October 27, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated June 9, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Gladwin Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Gladwin Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Gladwin Community Schools' compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Gladwin Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Gladwin Community Schools' compliance with those requirements.

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RSM McGladrey Network

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WEINLANDER FITZHUGH

To the Board of Education
Gladwin Community Schools
October 27, 2008
Page 2

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters on June 9, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Gladwin Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of depreciation is based on estimated useful life of fixed assets. We evaluated the key factors and assumptions used to develop the estimated useful life of fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.



WEINLANDER FITZHUGH

To the Board of Education
Gladwin Community Schools
October 27, 2008
Page 3

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The adjustment for construction costs payable was determined to be a material adjustment to the financial statements. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 27, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This report is intended solely for the information and use of the Board of Education, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than the specified parties.

Weinlander Fitzhugh